Counting the cost of MiFID II

Preparations for MiFID II are estimated to cost firms a total of $2.1bn in 2017, says a new report by Expand, a Boston Consulting Group company, and IHS Markit.

The implementation of the second Markets in Financial Instruments Directive (MiFID II) in January 2018 means firms will have to spend much of next year readying for the new regulatory landscape. While there has been much discussion of what firms need to do to comply with the impending regulations, so far there has been little tangible information around the expected costs of complying with MiFID II. To help firms across the buy side and sell side prepare to meet these upcoming cost implications, Expand and IHS Markit have collaborated on a new study analysing the IT costs in 2017.

The pace of preparation at investment banks (IBs) and asset managers (AMs) has been inconsistent, with some firms implementing changes while their peers remain in planning mode. Most IBs, for example, are planning to implement the majority of their MiFID II preparations in 2017. AMs, on the other hand, vary considerably in terms of preparedness. Some are opting to apply the original 2017 deadline internally, while others are still at a preliminary planning stage.

The study reveals that the top 40 global IBs and top 400 global AMs are forecast to spend a total of $2.1bn in 2017 to meet MiFID II’s guidelines, with each side of the industry expected to spend in excess of $1bn.

MiFID II total industry spend, 2017

From the top 40 global investment banks and top 400 global asset managers, Expand has forecast a total expected MiFID II spend of $2.1bn in 2017.

Source: ExpandResearch, *Forecast
MiFID II is set to transform all aspects of the financial services industry, focusing on improving investor protection, trade reporting and transparency and market structure.

However, the focus of budgets around these three areas differs notably between IBs and AMs. Over half of the average MiFID II budget of IBs are allocated towards enhancing investor protection, whereas AM’s budgets are primarily allocated towards improving trade reporting and transparency.

Size matters
Tier 1* AMs will allocate 7.2% of their technology budget in 2017 on MiFID II related projects. However, the biggest impact will be on the mid-tier firms, as for tier 2 and tier 3 firms this percentage reaches 10% and 20%, respectively. Tier 1 IBs are expecting to allocate 4.2% of their IT budget on MiFID II compliance in 2017. This ratio increases again for IBs in tier 2 and tier 3, reaching 9.8% and 22.6%, respectively. In fact, tier 3 IBs and AMs are expecting to allocate three times more on MiFID II in 2017 compared with their entire 2015 Regulatory CTB IT budgets.

Third party vendors
IBs and AMs are expected to spend $633m on MiFID II products and services provided by third party vendors. Investor protection will consume 48% of IBs’ MiFID II purse, with firms looking to third party vendors to provide solutions in this space. AMs are expected to spend $363m on third party vendors, or 36% of their overall asset management MiFID II spend. Tier 2 IBs are expecting to allocate 39% of their MiFID II spend on third party vendor products and services. Best execution for fixed income will attract a significant portion of the investor protection budget, with tier 2 firms looking to spend more than half of that on third party solutions.

Notes:
AMs have been tiered by AUM as follows: tier 1 (AUM > $500bn); tier 2 (AUM $250-500bn); tier 3 (AUM < $250bn).

IBs have been tiered by revenue as follows: tier 1 (revenues > $5bn); tier 2 (revenues $2-$5bn); tier 3 (revenues < $2bn).

For more details on the full report, please contact us on +1 212 931 4910 or email mifidII@ihsmarkit.com